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Wages

All work and low pay

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A bad plan to deal with Britain's low-wage recovery

ED MILIBAND has at last found some bite. Since 2010 the Labour leader has wasted time on "predistribution", a fluffy idea. No one cared. But now Mr Miliband has changed tack, focusing on living standards. His analysis, that wages remain anaemic despite the recovery, is accurate. And his promise—that Labour will lower prices and lift pay—seems to be working politically. But his policies are dubious.

For a decade until 2007 the daily grind paid well. Wages rose by 4% year-on-year while prices went up by less than 2%. The low-skilled made ground too. The national minimum wage—a legal pay floor introduced in 1999 at £3.60, then $5.80, per hour—rose in real terms every year (see chart). Then workers' position deteriorated. With prices rising about twice as quickly as pay, the basket of goods a British worker could afford started to shrink. Those at the bottom, such as bar staff, cleaners and mechanics, did badly too, as the inflation-adjusted minimum wage started to fall. By the end of this year it will be back to its 2004 level.

Weak wages dent Britain's recovery. The nightmare scenario for George Osborne, the chancellor of the exchequer, is that a revival based on private consumption might stutter if pay remains meagre. Even if that does not happen, puny pay hands the opposition a political weapon: while the economy may beat its 2008 peak in 2014, GDP per person is still 7% shy of previous highs. Britons are worse off.

The message is popular. A recent study by YouGov, a pollster, suggests a quarter of voters are part of what Mr Miliband calls the "squeezed middle" (roughly, white-collar workers who struggle to pay the bills). In 2010 the Conservative and Labour parties were neck and neck with these voters, both drawing 32%. Conservative support among them has dropped to 27% whereas Labour's has risen to 46%.

Mr Miliband is thus on solid ground with his diagnosis of the hole in Britain's recovery. His proposed solution is another matter. So far it is a blunt one: he wants to force prices down and wages up. In a speech on November 5th he backed the idea of a "living wage", which would lift minimum pay to £7.65 per hour outside London and £8.80 in the capital.

The living wage, unlike the minimum wage, is voluntary. If more companies could be nudged into paying it the wage structure would change profoundly. KPMG, a consultancy that supports the idea, estimates that 21% of Britain's 25m workers are paid less than the living wage. For the 891,000 who toil for the minimum wage of £6.31, jumping to £7.65 improves weekly pay by £50. Britain's low-wage army would be £2,500 a year better off.

Mr Miliband says he wants to improve the quality and quantity of work in Britain—a fine aim. But it is not clear whether Britain's firms can cope with paying workers up to £2,500 extra per year. In normal times there would be grounds for optimism: cross-country evidence suggests that gradual minimum-wage increases do not push up unemployment. And the planned living wage is still well below Britain's median pay of around £12 per hour.

But these are not normal times. Higher prices in the shops have not translated into profits for Britain's firms. A host of input costs—from oil and plastics to cereals and meat—have risen. Small firms struggle with borrowing costs; big ones are bolstering balance sheets, not paying big dividends. Firms are not flush: the trade-off between pay and jobs is a real one.

That means making workers more costly would be dangerous. Unemployment is down because hiring is up, not because firing is down. Forcing wages higher and making contracts more rigid (another of the Labour leader's plans) puts that at risk. Mr Miliband has spotted a problem, but his solution falls short. Britain needs stronger competition enforcement in cosy markets to lower prices. It needs investment, R&D and better education to lift productivity. If Britain's political parties were to prioritise these, wages would rise.